

BUSINESS

SITUATION

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ACCORDING TO the “final” estimates of the national income and product accounts (NIPA’s), real gross domestic product (GDP) increased 0.5 percent in the fourth quarter of 1995; the “advance” estimate of real GDP, reported in the March “Business Situation,” had shown a 0.9-percent increase.¹ The change in real final sales of domestic product was revised down to a 1.6-percent increase from the 1.8-percent increase reported a month ago. The price index for gross domestic purchases increased 2.1 percent, 0.1 percentage point more than reported a month ago. (The sources of the revisions are discussed in the section “Revisions.”)

The 0.5-percent increase in real GDP was markedly lower than the 3.6-percent increase in the third quarter and was similar to the low growth rates posted in the first half of 1995 (chart 1 and table 1). All the major compo-

nents of GDP except net exports contributed to the fourth-quarter slowdown. Inventory investment turned down, as inventories accumulated at a slower pace, and personal consumption expenditures decelerated. Government consumption expenditures and gross investment decreased more than in the third quarter; as explained later, about a third of the fourth-quarter

1. For the fourth quarter of 1995, a “preliminary” estimate was not prepared because of the effects of Federal Government shutdowns. Quarterly estimates in the NIPA’s are expressed at seasonally adjusted annual rates, and quarterly changes are differences between these rates. Quarter-to-quarter percent changes are annualized. Real estimates are expressed in chained (1992) dollars. Price indexes are chain-type indexes.

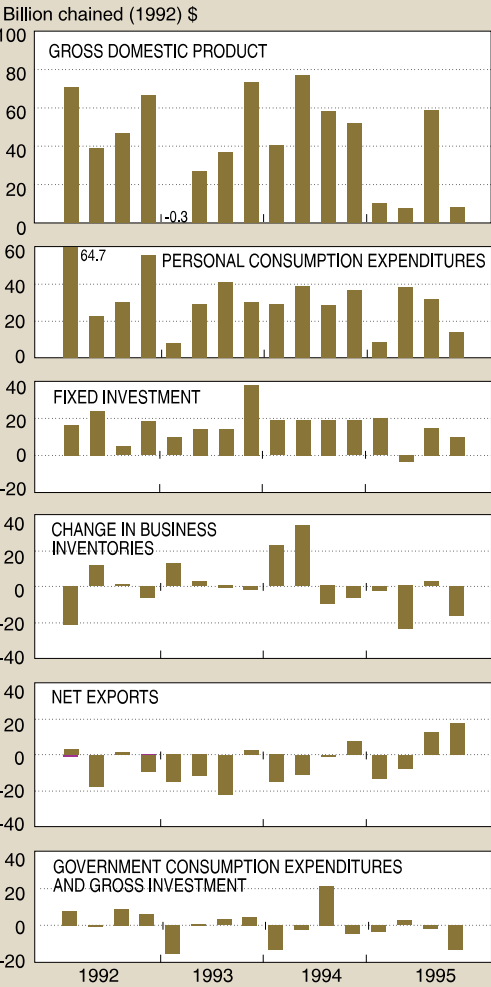
Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers
[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1995			
		1995				I	II	III	IV
		1995:IV	I	II	III					IV
Gross domestic product	6,776.5	10.3	7.8	58.9	8.2	0.6	0.5	3.6	0.5
<i>Less: Exports of goods and services</i>	799.8	4.8	8.5	14.8	20.7	2.6	4.6	8.0	11.0
<i>Plus: Imports of goods and services</i>	896.4	18.1	16.3	2.2	3.0	8.7	7.7	1.0	1.3
<i>Equals: Gross domestic purchases ...</i>	6,870.5	22.9	15.1	47.4	-8.9	1.4	.9	2.8	-5
<i>Less: Change in business inventories ...</i>	16.5	-2.8	-23.9	2.6	-16.7	.....	.....	.....	.....
<i>Equals: Final sales to domestic purchasers</i>	6,854.5	24.8	37.2	44.5	10.1	1.5	2.2	2.6	.6
Personal consumption expenditures ..	4,614.1	8.6	37.9	31.6	13.7	.8	3.4	2.8	1.2
Nonresidential fixed investment	725.3	24.7	6.2	9.1	5.6	15.3	3.6	5.2	3.1
Residential investment	266.4	-4.4	-9.3	5.7	4.1	-6.3	-13.3	9.2	6.4
Government consumption expenditures and gross investment	1,250.4	-3.6	2.8	-2.2	-13.2	-1.1	.9	-7	-4.1

NOTE.—Chained (1992) dollar series are calculated as the product of the chain-type quantity index and the 1992 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1992) dollar levels and residuals, which measure the extent of nonadditivity in each table, are found in NIPA tables 1.2 and 1.6. Percent changes in major aggregates are found in table 8.1.

CHART 1

Real Product:
Change from Preceding Quarter



decrease was accounted for by shutdowns of the Federal Government in mid-November and late December.

Real gross domestic purchases decreased 0.5 percent in the fourth quarter after increasing 2.8 percent in the third. Unlike GDP, gross domestic purchases includes imports and excludes exports. Exports of goods and services increased substantially more than in the third quarter, while imports posted a small increase similar to the one in the third quarter.

Gross national product (GNP).—Real GNP increased 1.3 percent in the fourth quarter, 0.8 percentage point more than real GDP (chart 2 and table 2). GNP equals GDP plus receipts of factor income from the rest of the world less payments of factor income to the rest of the world. In the fourth quarter, receipts of factor income increased much more than payments. Two-thirds of the increase in receipts was accounted for by profits earned abroad by U.S. residents, and interest income more than accounted for the small increase in payments. On a command basis, real GNP increased 1.7 percent.²

2. In the estimation of command-basis GNP—a measure of U.S. production in terms of its purchasing power—the current-dollar value of the sum of exports of goods and services plus receipts of factor income is deflated by

Table 2.—Relation of Real Gross Domestic Product, Real Gross National Product, and Real Command-Basis Gross National Product

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars			Percent change from preceding quarter	
	Level	Change from preceding quarter		1995	
		1995		III	IV
		1995:IV	III	IV	
Gross domestic product	6,776.5	58.9	8.2	3.6	0.5
Plus: Receipts of factor income from the rest of the world	206.9	−2.0	15.3	−4.1	36.0
Less: Payments of factor income to the rest of the world	206.4	3.5	1.4	7.1	2.8
Equals: Gross national product	6,776.7	53.4	22.1	3.2	1.3
Less: Exports of goods and services and receipts of factor income from the rest of the world	1,007.8	12.6	36.3	5.4	15.8
Plus: Command-basis exports of goods and services and receipts of factor income	1,041.8	25.3	42.5	10.8	18.1
Equals: Command-basis gross national product	6,810.8	66.0	28.4	4.0	1.7
Addendum:					
Terms of trade ¹	101.2	.8	.3	3.2	1.2

1. Ratio of the implicit price deflator for exports of goods and services and receipts of factor income to the corresponding implicit price deflator for imports with the decimal point shifted two places to the right.
NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels are found in NIPA tables 1.10 and 1.11.

Personal consumption expenditures

Real personal consumption expenditures (PCE) increased 1.2 percent in the fourth quarter after increasing 2.8 percent in the third (table 3). Most of the slowdown was accounted for by durable goods, but nondurable goods and services also contributed.

Factors usually considered in the analysis of PCE were mixed in the fourth quarter (chart 3). On the plus side, the unemployment rate edged down to 5.5 percent from 5.6 percent, and real disposable income increased 3.8 percent. On the negative side, the Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) fell to its lowest level in 2 years.

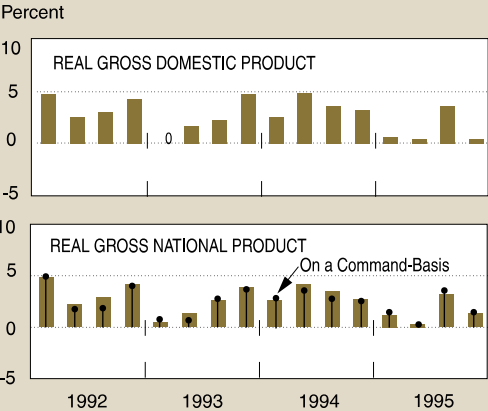
Expenditures for durable goods increased only 0.3 percent after jumping 9.3 percent. The slowdown was primarily accounted for by a downturn in motor vehicles and parts, which reflected a sharp drop in used autos after an increase in the third quarter; in contrast, new autos and new trucks turned up.³ Furniture and household equipment increased slightly less than in the third

the implicit price deflator for the sum of imports of goods and services plus payments of factor income.

3. Used autos in PCE reflect dealers' margins on used autos and net transactions with other sectors. Dealers' margins are the difference between retail prices and wholesale prices. Net transactions, which are valued at wholesale prices, represent the difference between sales of used autos by consumers to businesses and government, on the one hand, and purchases of used autos by consumers from businesses and government, on the other. Thus, in GDP, changes in net transactions, which accounted for more than three-fourths of the decrease in PCE used autos in the fourth quarter, are offset by changes in the opposite direction in nonresidential producers' durable equipment, change in business inventories, and government gross investment.

CHART 2

Selected Product Measures:
Change From Preceding Quarter



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

quarter, primarily reflecting a downturn in furniture and in kitchen and household appliances. Other durable goods decreased after increasing.

Expenditures for nondurable goods decreased 0.3 percent after increasing 0.5 percent. Clothing and shoes, food, and "other" nondurables each decreased after increasing. In contrast, energy turned up.

Expenditures for services increased 2.2 percent after increasing 2.6 percent. Household operation turned down as electricity and gas decreased sharply, reflecting a return to more normal temperatures after an unusually warm third quarter. "Other" services increased less than in the third quarter, primarily reflecting a slowdown in brokerage commissions. Housing increased about the same in both quarters. Transportation and medical care increased more than in the third quarter; in transportation, the step-up appears to have been a reaction to a sharp downturn in airfares.

Nonresidential fixed investment

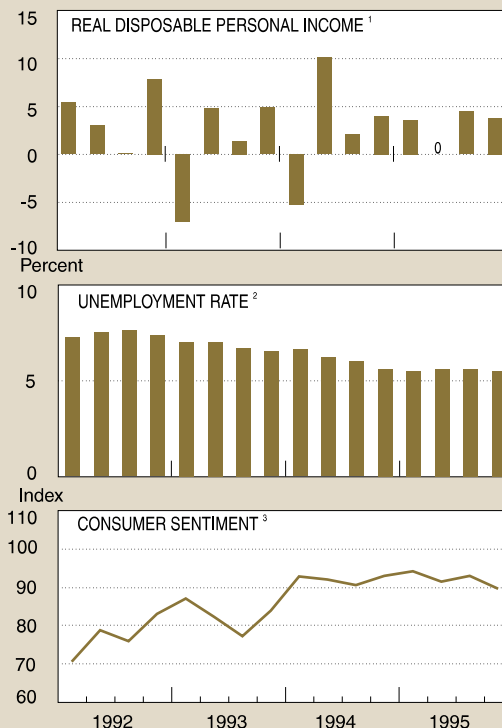
Real private nonresidential fixed investment increased 3.1 percent in the fourth quarter after increasing 5.2 percent in the third (table 4). Most of the slowdown was accounted for by structures.

Factors usually associated with investment spending, like those associated with PCE, were mixed in the fourth quarter. Domestic corporate profits were down. Cash flow increased but

CHART 3

Selected Factors Affecting Consumer Spending

Percent change



1. Disposable personal income in chained (1992) dollars: seasonally adjusted annual rates.
2. All civilian workers, seasonally adjusted.
3. Data: University of Michigan's Survey Research Center.

Data: U.S. Department of Labor, Bureau of Labor Statistics

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U.S. Department of Commerce, Bureau of Economic Analysis

Table 3.—Real Personal Consumption Expenditures

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1995			
		1995							
		1995:IV	I	II	III	IV	I	II	III	IV
Personal consumption expenditures	4,614.1	8.6	37.9	31.6	13.7	0.8	3.4	2.8	1.2
Durable goods	590.1	-13.0	9.7	13.1	.4	-8.7	7.0	9.3	.3
Motor vehicles and parts	220.9	-13.2	4.5	5.2	-5.0	-21.1	8.6	9.7	-8.6
Of which: New autos	80.2	-6.6	-4	-7	3.2	-27.5	-1.9	-3.7	17.4
New trucks	51.9	-4.1	.2	-4	1.5	-26.8	1.5	-2.6	11.6
Furniture and household equipment	261.5	.6	4.2	7.4	6.6	.9	7.1	12.5	10.8
Other	109.9	.1	1.0	.6	-6	.4	3.8	2.2	-2.3
Nondurable goods	1,424.2	8.4	6.7	1.9	-1.2	2.4	1.9	.5	-3
Food	703.3	5.6	.9	2.3	-6	3.2	.5	1.3	-3
Clothing and shoes	257.3	-9	3.4	.9	-1.6	-1.4	5.3	1.4	-2.4
Gasoline and oil	113.7	1.8	.2	-1.1	1.2	6.8	.6	-4.0	4.5
Fuel oil and coal	10.3	.3	.7	-6	.7	12.3	30.8	-21.2	30.1
Other	339.4	1.6	1.7	.3	-9	2.0	1.9	.4	-1.0
Services	2,600.4	13.0	21.5	16.7	14.1	2.1	3.4	2.6	2.2
Housing	686.3	3.3	2.6	3.2	3.1	2.0	1.6	1.9	1.8
Household operation	279.0	3.0	7.2	3.5	-1.8	4.6	11.0	5.2	-2.6
Electricity and gas	113.5	1.8	4.9	2.8	-3.6	7.0	19.0	10.3	-12.0
Other household operation	165.5	1.2	2.3	.8	1.8	3.0	5.9	1.9	4.4
Transportation	180.0	1.2	.2	.5	3.6	2.7	.6	1.1	8.4
Medical care	691.3	3.6	3.5	4.8	5.2	2.1	2.1	2.8	3.1
Other	763.9	2.0	8.0	4.7	3.9	1.1	4.4	2.5	2.1

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA tables 2.3, 8.5 (new autos), and 8.7 (new trucks). Percent changes in major aggregates are found in table 8.1.

much less than in the third quarter; similarly, real final sales of domestic product increased only modestly after a substantially larger increase. The capacity utilization rate in manufacturing dropped to 82.0 percent from 82.6 percent—its third consecutive quarterly decrease. However, borrowing costs—as measured by the yield on new high-grade corporate bonds—decreased for the fourth consecutive quarter; at 7.17 percent, the yield was 160 basis points lower than in the fourth quarter of 1994.

Structures increased 0.9 percent after increasing 6.2 percent. Nonresidential buildings increased less than in the third quarter; commercial construction more than accounted for the slowdown. Construction by utilities also slowed substantially.

Producers' durable equipment increased 4.0 percent after increasing 4.9 percent. Transportation and "other" equipment turned down, and industrial equipment decreased almost as much as in the third quarter. In contrast, information processing equipment, mainly computers and peripheral equipment, jumped sharply.

Residential investment

Real residential investment increased 6.4 percent in the fourth quarter after increasing 9.2 percent in the third. The slowdown was more than accounted for by "other" residential investment;

in contrast, both single-family and multifamily construction increased more than in the third quarter.⁴

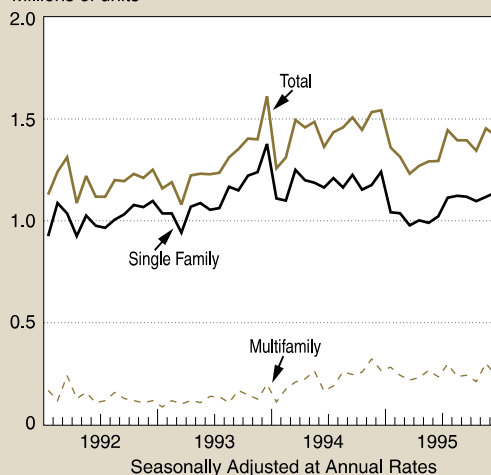
Single-family construction increased 10.6 percent after increasing 9.4 percent. Single-family

4. "Other" residential investment includes improvements (major replacements and additions and alterations), sales of new mobile homes, brokers' commissions on house sales, and residential equipment.

CHART 4

Housing Starts

Millions of units



Data: Bureau of the Census

U.S. Department of Commerce, Bureau of Economic Analysis

Table 4.—Real Gross Private Domestic Fixed Investment

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1995			
		1995				I	II	III	IV
		1995:IV	I	II	III				
Gross private domestic fixed investment	990.7	19.9	-3.5	14.9	9.7	8.6	-1.4	6.3	4.0
Nonresidential	725.3	24.7	6.2	9.1	5.6	15.3	3.6	5.2	3.1
Structures	183.1	4.2	1.5	2.7	.4	9.9	3.4	6.2	.9
Nonresidential buildings, including farm	130.3	2.1	1.4	2.4	1.1	6.9	4.7	7.8	3.5
Utilities	36.0	1.0	1.1	1.0	.2	13.0	13.5	12.5	1.8
Mining exploration, shafts, and wells	10.5	1.0	-1.8	.3	-5	35.7	-44.7	9.0	-17.1
Other	6.2	.2	.7	-1.0	-4	9.8	44.9	-42.8	-21.8
Producers' durable equipment	543.5	20.7	4.8	6.3	5.3	17.4	3.7	4.9	4.0
Information processing and related equipment	216.1	6.7	10.7	2.0	14.2	15.7	24.5	4.1	31.3
Computers and peripheral equipment	106.1	3.9	8.0	3.8	14.1	22.3	46.2	18.1	77.3
Other	116.3	3.2	3.6	-1.0	2.2	12.3	13.6	-3.5	7.9
Industrial equipment	115.5	4.8	4.2	-1.7	-1.2	18.6	15.5	-5.7	-4.0
Transportation and related equipment	115.1	5.2	-6.9	5.6	-5.3	18.9	-20.9	21.2	-16.5
Of which: Motor vehicles	100.3	-2.2	-2.0	6.9	-7.0	-8.2	-7.6	30.5	-23.7
Other	99.4	4.0	-2.3	.4	-1.3	17.0	-8.5	1.5	-4.9
Residential	266.4	-4.4	-9.3	5.7	4.1	-6.3	-13.3	9.2	6.4
Single-family structures	129.1	-4.4	-10.0	2.8	3.3	-12.0	-26.9	9.4	10.6
Multifamily structures	18.5	1.2	.6	.4	.7	34.0	14.3	10.2	15.6
Other	119.3	-1.2	.4	2.5	.1	-4.0	1.4	8.8	.3

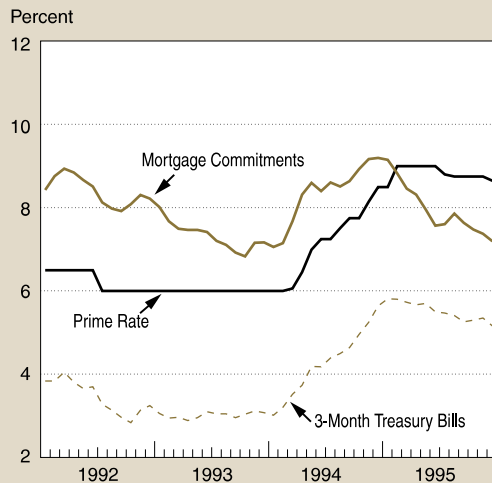
NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA tables 5.5, 8.5 (new and used autos) and 8.7 (new trucks). Percent changes in major aggregates are found in table 8.1.

construction in a quarter is largely determined by single-family housing starts in that quarter and in the preceding quarter. Therefore, construction in the fourth quarter reflected starts in the third and fourth quarters. In these two quarters, single-family starts averaged 1.13 million units (seasonally adjusted annual rate), up from an average of 1.07 million units in the second and third quarters (chart 4).

“Other” residential investment increased 0.3 percent after increasing 8.8 percent. Brokers’ commissions turned down after a large increase. The decrease reflected a 123,000-unit decrease (seasonally adjusted annual rate) in sales of new and existing residences, despite a continued drop in mortgage rates; for example, the commitment rate on 30-year fixed-rate mortgages, at 7.35 percent, was 175 basis points lower than in the fourth quarter of 1994 (chart 5).

CHART 5

Selected Interest Rates



Data: Federal Reserve Board

U.S. Department of Commerce, Bureau of Economic Analysis

Inventory investment

Real inventory investment—that is, the change in business inventories—decreased \$16.7 billion in the fourth quarter, as inventory accumulation slowed to \$16.5 billion from \$33.2 billion (table 5). In contrast, inventory investment had increased \$2.6 billion in the third quarter as accumulation stepped up from \$30.6 billion in the second quarter.

Nonfarm inventories increased \$19.5 billion in the fourth quarter after increasing \$38.3 billion in the third. The fourth-quarter increase represented a 0.5-percent (quarterly rate) increase in nonfarm inventories; over the preceding six quarters, accumulation had averaged \$48 billion—an average increase of 1.2 percent (quarterly rate).

The fourth-quarter accumulation of nonfarm inventories was attributable to manufacturing, wholesale trade, and “other” nonfarm. Manufacturing inventories increased less than in the third quarter, when they had posted their biggest increase in almost 6 years. The accumulation of durable goods slowed, and inventories of nondurable goods decreased slightly.

Wholesale trade inventories also increased less than in the third quarter. The slowdown was accounted for by nondurable goods, largely farm products, groceries, apparel, drugs and sundries.

“Other” nonfarm inventories increased more than in the third quarter. This group consists mainly of inventories held by the mining, construction, public utilities, transportation, communication, and service industries.

Retail trade inventories decreased after increasing. The decrease was in nondurable goods—largely “other” nondurables, apparel, and drug stores—and in durable goods other than those held by auto dealers.

Farm inventories decreased \$3.5 billion, the fourth consecutive quarter of inventory reduc-

Table 5.—Change in Real Business Inventories

[Billion of chained (1992) dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter			
	1994	1995				1995			
	IV	I	II	III	IV	I	II	III	IV
Change in business inventories	57.3	54.5	30.6	33.2	16.5	-2.8	-23.9	2.6	-16.7
Farm	3.3	-4.4	-3.8	-5.8	-3.5	-7.7	.6	-2.0	2.3
Nonfarm	53.3	58.1	33.8	38.3	19.5	4.8	-24.3	4.5	-18.8
Manufacturing	6.5	8.6	11.3	16.4	11.2	2.1	2.7	5.1	-5.2
Wholesale trade	22.6	24.7	15.4	12.9	4.8	2.1	-9.3	-2.5	-8.1
Retail trade	17.2	12.7	5.6	3.0	-7.0	-4.5	-7.1	-2.6	-10.0
Of which: Motor vehicle dealers	8.4	9.4	-5	-6.2	.4	1.0	-9.9	-5.7	6.6
Other	6.9	12.3	1.5	6.0	10.6	5.4	-10.8	4.5	4.6

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA table 5.11.

tion. The fourth-quarter decrease was accounted for by crops.

The ratio of real nonfarm inventories to real final sales of domestic business was at 2.28 for the fourth consecutive quarter. A different ratio, in which real final sales are limited to goods and structures, edged down to 4.09 from 4.10.

Exports and imports of goods and services

Real exports increased 11.0 percent in the fourth quarter after increasing 8.0 percent in the third. Real imports increased 1.3 percent after increasing 1.0 percent (table 6).

Exports of goods increased 14.1 percent after increasing 9.6 percent. Exports of agricultural goods turned down, but exports of nonagricultural goods stepped up, largely as a result of an

upturn in exports of civilian aircraft. (Though aircraft exports were higher than in the third quarter, they were lower than in any other quarter since 1987 and were only about half the level of early 1992.) Most nonagricultural goods increased a little more than in the third quarter; exceptions were autos and industrial supplies and materials (durable), both of which turned down. Exports of services increased a little less than in the third quarter.

Imports of goods increased 0.3 percent after increasing 0.9 percent. Imports of petroleum turned down sharply, and imports of non-petroleum goods increased more than in the third quarter. Among nonpetroleum goods, industrial supplies and materials decreased less than in the third quarter, and "other" imports turned up. Imports of services stepped up, largely reflecting

Table 6.—Real Net Exports of Goods and Services

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1995			
		1995							
		1995:IV	I	II	III	IV	I	II	III	IV
Exports of goods and services	799.8	4.8	8.5	14.8	20.7	2.6	4.6	8.0	11.0
Goods	589.8	5.0	8.9	12.9	19.1	3.7	6.6	9.6	14.1
Agricultural goods	49.4	.1	-3.1	1.8	-6	.6	-21.8	15.8	-5.0
Nonagricultural goods	540.8	4.9	12.2	11.1	19.9	4.1	10.2	9.0	16.2
Services	211.1	-1	-2	2.0	1.7	-3	-4	3.9	3.4
Imports of goods and services	896.4	18.1	16.3	2.2	3.0	8.7	7.7	1.0	1.3
Goods	752.8	14.2	17.7	1.7	.6	8.1	10.0	.9	.3
Petroleum and products	57.9	-1.7	.9	3.3	-2.8	11.2	6.9	24.7	-17.2
Nonpetroleum goods	694.6	15.4	16.6	.5	3.0	9.7	10.2	.3	1.8
Services	143.9	3.9	-1.3	.5	2.3	11.6	-3.5	1.5	6.6
Addendum: Net exports of goods and services	-96.6	-13.2	-7.8	12.5	17.7	.....	.....	.....	.....

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA table 4.4. Percent changes in major aggregates are found in table 8.1.

Table 7.—Real Government Consumption Expenditures and Real Gross Investment by Type

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1995			
		1995							
		1995:IV	I	II	III	IV	I	II	III	IV
Government consumption expenditures and gross investment	1,250.4	-3.6	2.8	-2.2	-13.2	-1.1	0.9	-0.7	-4.1
Federal	456.8	-7.8	-1.4	-7.2	-15.9	-6.3	-1.1	-5.9	-12.8
National defense	309.3	-6.0	.8	-6.8	-10.0	-7.0	.9	-8.1	-12.0
Consumption expenditures	275.4	-5.8	-.6	-4.4	-3.4	-7.8	-.9	-6.0	-4.8
Gross investment	34.1	-.1	1.3	-2.4	-6.4	-1.1	13.7	-20.5	-50.2
Nondefense	147.2	-1.9	-2.0	-.5	-5.9	-4.8	-5.2	-1.2	-14.6
Consumption expenditures	128.6	-1.3	-1.2	.1	-6.2	-3.8	-3.3	.2	-17.0
Gross investment	18.4	-.6	-1.0	-.5	.2	-11.2	-18.0	-11.7	6.0
State and local	794.4	4.5	4.1	5.2	2.9	2.3	2.1	2.7	1.5
Consumption expenditures	642.1	2.4	1.8	2.6	1.6	1.5	1.1	1.6	1.0
Gross investment	152.3	2.0	2.4	2.6	1.3	5.6	6.7	7.2	3.4

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA table 3.8B. Percent changes in major aggregates are found in table 8.1.

an upturn in travel in the United States by foreign residents.

Government consumption expenditures and gross investment

Real government consumption expenditures and gross investment decreased 4.1 percent in the fourth quarter after decreasing 0.7 percent in the third (table 7).⁵ About a third of the fourth-quarter decrease was accounted for by the Federal Government shutdowns in mid-November and late December.⁶ Federal Government consumption and investment decreased substantially more than in the third quarter, and State and local government consumption and investment increased somewhat less than in the third quarter.

Federal defense consumption and investment decreased 12.0 percent after decreasing 8.1 percent. Investment fell substantially more than in the third quarter; the fourth-quarter decrease was mostly in equipment, particularly aircraft and missiles. Consumption expenditures decreased somewhat less than in the third quarter; the fourth-quarter decrease was accounted for by durable goods (mainly parts for aircraft, missiles, and ships) and by compensation of employees.

Federal nondefense consumption and investment decreased 14.6 percent after decreasing 1.2 percent. The fourth-quarter decrease was in consumption expenditures, primarily in employee compensation.

State and local consumption and investment increased 1.5 percent after increasing 2.7 percent. The slowdown was attributable to structures investment and to employee compensation.

Revisions

As noted earlier, the final estimate of a 0.5-percent increase in real GDP in the fourth quarter is 0.4 percentage point lower than the advance estimate (table 8). The final estimate of the increase in the price index for gross domestic

purchases—2.1 percent—is 0.1 percentage point higher than the advance estimate.

The revision to real GDP reflected downward revisions to change in business inventories, to producers' durable equipment, and to net exports; these revisions were partly offset by an upward revision to consumer spending. The downward revision to change in business inventories primarily reflected the incorporation of newly available Census Bureau data on retail inventories for December and a downward revision to the inventory valuation adjustment that was mainly due to revised data on petroleum prices. The downward revision to producers' durable equipment reflected the incorporation of newly available Census Bureau data on exports and im-

Table 8.—Revisions to Real Gross Domestic Product and Prices, Fourth Quarter 1995

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate minus advance estimate	
	Advance estimate	Final estimate	Percentage points	Billions of chained (1992) dollars
Gross domestic product	0.9	0.5	-0.4	-7.3
Less: Exports of goods and services	10.9	11.0	.1	.2
Goods	11.2	14.1	2.9	3.8
Services	10.4	3.4	-7.0	-3.5
Plus: Imports of goods and services .....	.1	1.3	1.2	2.7
Goods	-2.0	.3	2.3	4.4
Services	11.8	6.6	-5.2	-1.7
Equals: Gross domestic purchases	-2	-5	-3	-4.8
Personal consumption expenditures .....	.8	1.2	.4	4.4
Durable goods	1.0	.3	-.7	-1.1
Nondurable goods	-1.4	-.3	1.1	3.9
Services	2.0	2.2	.2	1.6
Fixed investment	5.7	4.0	-1.7	-4.1
Nonresidential	6.2	3.1	-3.1	-5.4
Structures	4.6	.9	-3.7	-1.7
Producers' durable equipment	6.8	4.0	-2.8	-3.7
Residential	4.5	6.4	1.9	1.2
Change in business inventories .....	.....	.....	.....	-3.9
Nonfarm .....	.....	.....	.....	-4.1
Farm .....	.....	.....	.....	.1
Government consumption expenditures and gross investment	-3.7	-4.1	-.4	-1.3
Federal	-12.0	-12.8	-.8	-1.1
National defense	-11.6	-12.0	-.4	-.3
Nondefense	-12.8	-14.6	-1.8	-.8
State and local	1.6	1.5	-.1	-.2
Addenda:				
Final sales of domestic product	1.8	2.2	.4	-3.3
Gross domestic purchases price index (chain-type weights) ¹ ..	2.0	2.1	.1	.....
GDP price index (chain-type weights) ¹	2.2	2.2	0	.....

1. Based on chained (1992) weights.

NOTE.—Final estimates for the fourth quarter of 1995 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

Personal consumption expenditures: Revised retail sales for November and December and newly available sales and stocks of used autos for November and December.

Nonresidential fixed investment: Revised construction put in place for November and December, revised manufacturers' shipments of machinery and equipment for December, and revised exports and imports of machinery and equipment for November and newly available exports and imports for December.

Residential fixed investment: Revised construction put in place for November and December.

Change in business inventories: Revised retail trade inventories for November, newly available retail trade inventories for December, and revised manufacturing and wholesale trade inventories for December.

Exports and imports of goods and services: Revised exports and imports of services for the quarter, revised exports and imports of goods for November, and newly available exports and imports of goods for December.

Government consumption expenditures and gross investment: Revised State and local construction put in place for November and December, and revised State and local employment for December.

Wages and salaries: Revised employment, average hourly earnings, and average weekly hours for December.

GDP prices: Revised detailed merchandise export and import price indexes for the quarter and revised values and quantities of petroleum imports for December.

5. In the comprehensive revision of the NIPA's released in January 1996, BEA introduced a new treatment of government purchases of structures and equipment. In the product-side measure of GDP, "government consumption expenditures and gross investment" is the redefined government component that replaces "government purchases." For more information, see "Preview of the Comprehensive Revision of the National Income and Product Accounts: Recognition of Government Investment and Incorporation of a New Methodology for Calculating Depreciation," SURVEY OF CURRENT BUSINESS 75 (September 1995): 33-41.

6. According to the Office of Management and Budget, about 258,000 civilian defense employees and about 489,000 nondefense employees were affected by the first furlough, which began November 14 and ended November 19, and about 284,000 nondefense employees were affected by the second furlough, which began December 18 and ended January 5. BEA estimated the associated loss of real output for the fourth quarter—\$4.6 billion at an annual rate—as the product of employee-furlough days and real compensation-per-employee day.

ports of machinery and equipment for December. The downward revision to net exports reflected the incorporation of revised data on exports and imports of services for the quarter, revised data on exports and imports of goods for November, and newly available data on exports and imports of goods for December.

The upward revision to personal consumption expenditures mainly reflected an upward revision to retail sales of goods that more than offset a downward revision to net purchases of used autos. The revision to retail sales reflected revised Census Bureau data for November and December. The revision to used autos reflected newly available data from trade sources for November and December.

Corporate Profits

Profits from current production increased \$3.7 billion in the fourth quarter of 1995 after increasing \$53.8 billion in the third (table 9).⁷

In the fourth quarter, profits from domestic operations of financial corporations decreased, reflecting, in large part, losses of insurance companies in connection with Hurricane Opal. Profits from domestic operations of nonfinancial corporations changed little, and profits from the rest of the world were up sharply. In the third quarter, the picture had been very different: Profits of both financial and nonfinancial corporations increased sharply, and profits from the rest of the world decreased.

Most of the fourth-quarter slowdown in nonfinancial profits was accounted for by unit profits, which decreased after a big third-quarter increase. The decrease resulted from a rise in unit costs that exceeded the rise in unit price. In contrast, the third-quarter increase in unit profits had resulted from decreases in unit costs that had reinforced the effect of an increase in unit price.

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$10.0 billion after increasing \$45.3 billion. The ratio of cash flow to nonresidential fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, increased to 83.9 percent from 82.9 percent. These levels are near the low end of the range in which the ratio has fluctuated during

most of this decade but are substantially higher than the values typically posted in the 1980's.

Industry profits.—Industry profits increased \$1.9 billion in the fourth quarter after increasing \$54.2 billion in the third.⁸

The fourth-quarter increase was more than accounted for by profits from the rest of the world. This component of profits measures receipts of profits from foreign affiliates of U.S. corporations less payments of profits by U.S. affiliates of foreign corporations. Receipts increased sharply in the fourth quarter, and payments decreased. In contrast to the strength in profits abroad, domestic profits decreased. As already mentioned, financial profits were hit hard by claims arising from Hurricane Opal, which cut a swath from the Florida panhandle to North Carolina in early October; resulting losses for property, casualty, and life insurance carriers are currently estimated

8. Industry profits are estimated as the sum of profits before tax and the inventory valuation adjustment; they are shown in NIPA table 6.16C as "corporate profits with inventory valuation adjustment." Estimates of the capital consumption adjustment do not exist at a detailed industry level; they are available only for total financial and total nonfinancial industries.

Table 9.—Corporate Profits

[Seasonally adjusted at annual rates]

	Level	Change from preceding quarter	
	1995:IV		
		1995:III	1995:IV
	Billions of dollars		
Profits from current production	618.6	53.8	3.7
Domestic industries	530.1	58.5	-11.6
Financial	125.8	17.9	-10.8
Nonfinancial	404.3	40.5	-7
Rest of the world	88.5	-4.6	15.3
IVA	-8.8	33.0	.5
CCAdj	16.5	-4	1.9
Profits before tax	611.0	21.2	1.4
Profits tax liability	218.7	10.3	-5.8
Profits after tax	392.3	11.0	7.2
Cash flow from current production	628.8	45.3	10.0
Profits by industry:			
Corporate profits with IVA	602.2	54.2	1.9
Domestic industries	513.7	58.9	-13.4
Financial	119.3	17.8	-11.1
Nonfinancial	394.4	41.1	-2.3
Manufacturing	157.3	15.4	4.1
Wholesale trade	31.2	4.8	0
Retail trade	39.6	5.9	-2.9
Transportation and public utilities	95.8	9.8	-6.5
Other	70.5	5.2	3.0
Rest of the world	88.5	-4.6	15.3
Receipts (inflows)	122.8	-1.2	12.7
Payments (outflows)	34.3	3.4	-2.6
	Dollars		
Unit price, costs, and profits of domestic non-financial corporations:			
Unit price	1.055	.003	.001
Unit labor cost	.696	-.003	.001
Unit nonlabor cost	.251	-.004	.001
Unit profits from current production	.108	.009	-.001

7. Profits from current production are estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; they are shown in NIPA tables 1.14, 1.16, and 6.16C as "corporate profits with inventory valuation and capital consumption adjustments."

NOTE.—Levels of these and other profits series are found in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment

at \$7.8 billion (annual rate). Nonfinancial profits decreased slightly, as drops in the transportation and utilities group and in retail trade more than offset increases in manufacturing and in the "other" nonfinancial group.

The very large third-quarter increase, in contrast, had been more than accounted for by domestic profits. Of the industries for which quarterly estimates are published, only three failed to post increases: Primary and fabricated metal manufacturers and food manufacturers.

Related measures.—Profits before tax (PBT) increased \$1.4 billion in the fourth quarter after increasing \$21.2 billion in the third. The difference between the slowdown in PBT and the much bigger one in profits from current production is due to inventory profits, which are represented in the NIPA's (with the sign reversed) by the inventory valuation adjustment. Inventory profits had dropped sharply in the third quarter, affecting PBT but not current-production profits (from which they are excluded). This drop in inventory profits reflected a substantial moderation in the rate of inventory price change; for example, the Producer Price Index (PPI) for intermediate materials, supplies, and components increased 0.9 percent (annual rate) in the third quarter after increasing 5.2 percent in the second, and the PPI for crude materials for further processing decreased 2.6 percent after increasing 4.9 percent.

Government Sector

The fiscal position of the government sector improved slightly in the fourth quarter of 1995, as the combined "current" deficit of the Federal Government and State and local governments decreased \$0.8 billion, to \$66.9 billion (table 10).⁹ A decrease in the Federal Government current deficit was nearly offset by a decrease in the State and local government current surplus.

Federal

The Federal Government current deficit decreased \$6.7 billion in the fourth quarter after

increasing \$1.1 billion in the third. At \$154.9 billion, the fourth-quarter current deficit was the lowest since the first quarter of 1991.

Receipts.—Receipts increased \$8.1 billion in the fourth quarter after increasing \$3.4 billion in the third. The acceleration was due to upturns in personal tax and nontax receipts and in indirect business tax and nontax accruals that more than offset a downturn in corporate profits tax accruals and a deceleration in contributions for social insurance.

Table 10.—Government Sector Receipts and Current Expenditures

[Billions of dollars, seasonally adjusted at annual rates]

	Level	Change from preceding quarter				
	1995: IV	1994	1995			
		IV	I	II	III	IV
Government sector						
Receipts	2,298.5	41.1	40.0	42.2	17.6	14.3
Current expenditures	2,365.4	45.6	23.1	29.4	23.6	13.6
Current surplus or deficit(–)	–66.9	–4.5	16.9	12.8	–6.1	.8
Social insurance funds	118.3	0	–5.1	–4.0	1.9	.9
Other	–185.2	–4.5	22.0	16.8	–8.0	–1
Federal Government						
Receipts	1,494.7	29.2	33.0	33.9	3.4	8.1
Personal tax and nontax receipts	623.3	14.1	20.1	29.8	–7.1	6.0
Corporate profits tax accruals	184.3	8.7	3.1	–2.4	8.4	–4.8
Indirect business tax and nontax accruals	91.3	–1	–1.5	1.8	–5.1	2.9
Contributions for social insurance	595.9	6.5	11.3	4.7	7.2	4.1
Current expenditures	1,649.7	33.4	15.7	21.1	4.4	1.6
Consumption expenditures	451.4	–2	–5	1.3	–2.6	–2.1
National defense	300.1	–8.4	–1.9	2.3	–4.0	–1.2
Nondefense	151.3	8.2	1.4	–1.0	1.4	–9
Transfer payments (net)	731.0	19.7	7.3	6.6	11.9	4.0
To persons	719.3	6.9	21.5	9.0	7.8	6.3
To rest of the world	11.8	12.8	–14.2	–2.4	4.1	–2.2
Grants-in-aid to State and local governments	203.3	0	8.9	5.5	–7.5	–5
Net interest paid	234.1	10.5	6.3	8.0	3.5	1.4
Subsidies less current surplus of government enterprises ..	29.9	3.4	–6.3	–3	–9	–1.2
Subsidies	31.3	1.0	–3	–8	–1.2	–1.3
Of which: Agricultural subsidies	5.1	0	–4	–6	–8	–7
Less: Current surplus of government enterprises	1.4	–2.4	6.0	–5	–2	–2
Less: Wage accruals less disbursements	0	0	0	0	0	0
Current surplus or deficit (–)	–154.9	–4.2	17.3	12.8	–1.1	6.7
Social insurance funds	60.7	1.8	–4.0	–3.3	1.9	1.4
Other	–215.6	–6.0	21.3	16.1	–3.0	5.3
State and local governments						
Receipts	1,007.1	11.9	15.9	13.8	6.7	5.7
Personal tax and nontax receipts	183.8	2.8	1.9	1.5	4.2	2.6
Corporate profits tax accruals	34.4	1.4	.6	–7	1.9	–1.0
Indirect business tax and nontax accruals	512.8	7.2	4.0	7.0	7.6	3.9
Contributions for social insurance	72.8	.5	.5	.5	.6	.6
Federal grants-in-aid	203.3	0	8.9	5.5	–7.5	–5
Current expenditures	919.0	12.2	16.3	13.8	11.7	11.5
Consumption expenditures	691.9	6.5	10.2	8.0	6.1	5.7
Transfer payments to persons	299.4	6.3	6.4	5.4	5.3	5.1
Net interest paid	–46.4	.5	.6	.8	.7	.6
Less: Dividends received by government	13.0	.3	.4	.2	.3	.3
Subsidies less current surplus of government enterprises ..	–13.0	–8	–5	–2	0	.2
Subsidies .....	.4	0	0	0	0	0
Less: Current surplus of government enterprises	13.4	.8	.5	.2	0	–2
Less: Wage accruals less disbursements	0	0	0	0	0	0
Current surplus or deficit (–)	88.1	–3	–4	0	–5.0	–5.8
Social insurance funds	57.6	–1.8	–1.1	–7	0	–5
Other	30.5	1.5	.7	.7	–5.0	–5.3

NOTE.—Dollar levels are found in tables 3.1, 3.2, and 3.3 of the "Selected NIPA Tables."

9. The term "current surplus or deficit" replaces the term "surplus or deficit" as a result of the change made in the recent comprehensive revision in order to recognize government investment; see footnote 5.

The change has the following effects on the components of government expenditures: (1) The new component "government consumption expenditures," unlike the component "government purchases," includes consumption of fixed capital by general government and excludes gross government investment, and (2) in the component "subsidies less current surplus of government enterprises," the current surplus of government enterprises is reduced by consumption of fixed capital, which is an expense for these types of agencies.

Personal tax and nontax receipts increased \$6.0 billion after decreasing \$7.1 billion. The third-quarter decrease followed a second-quarter boost in tax receipts that reflected the provisions of the Omnibus Budget Reconciliation Act of 1993 that retroactively increased tax rates for high-income taxpayers. Withheld income tax receipts increased \$6.1 billion after increasing \$9.0 billion.

Indirect business tax and nontax accruals increased \$2.9 billion after decreasing \$5.1 billion. The upturn was accounted for by nontax accruals, which increased \$2.1 billion after decreasing \$5.8 billion. In the third quarter, the Federal Government refunded to federally chartered banks overpayments of \$6.0 billion (annual rate) that were made to the Bank Insurance Fund (BIF) in June through September. In the fourth quarter, because of new lower assessment rates, premiums to the BIF were \$4.0 billion (annual rate) lower than in the second quarter.

Corporate profits tax accruals decreased \$4.8 billion after increasing \$8.4 billion. The downturn reflected the drop in domestic corporate profits.

Contributions for social insurance increased \$4.1 billion after increasing \$7.2 billion. The deceleration reflected the slowdown in wages and salaries.

Current expenditures.—Current expenditures increased \$1.6 billion in the fourth quarter after increasing \$4.4 billion in the third. The deceleration was more than accounted for by transfer payments and net interest paid.

Transfer payments (net) increased \$4.0 billion after increasing \$11.9 billion. The deceleration was largely due to transfer payments to the rest of the world, which fell \$2.2 billion after increasing \$4.1 billion. Transfer payments to persons increased \$6.3 billion after increasing \$7.8 billion; regular payments for unemployment increased more slowly in the fourth quarter than in the third, following the pattern of employment.

Net interest paid increased \$1.4 billion after increasing \$3.5 billion. The deceleration was more than accounted for by a turnaround in gross interest received from the rest of the world, which increased \$0.6 billion after decreasing \$1.9 billion.

Subsidies less current surplus of government enterprises decreased \$1.2 billion after decreasing \$0.9 billion.

Grants-in-aid to State and local governments decreased \$0.5 billion after decreasing \$7.5 billion. Grants for medicaid decreased \$0.1 billion after decreasing \$4.4 billion, and grants for aerospace and for defense atomic energy activities increased \$0.5 billion after decreasing \$2.3 billion.

Consumption expenditures decreased \$2.1 billion after decreasing \$2.6 billion. Expenditures on national defense decreased \$1.2 billion after decreasing \$4.0 billion. The fourth-quarter decrease was more than accounted for by lower compensation of employees and by lower expenditures on parts for aircraft, missiles, and ships; expenditures on research and development increased. Nondefense consumption expenditures decreased \$0.9 billion after increasing \$1.4 billion; the downturn was more than accounted for by downturns in compensation of employees and in research and development and by an upturn in sales by the Commodity Credit Corporation.

State and local

The State and local government surplus decreased \$5.8 billion, to \$88.1 billion, in the fourth quarter after decreasing \$5.0 billion in the third. Current expenditures strongly outpaced receipts for the second consecutive quarter.

Receipts increased \$5.7 billion after increasing \$6.7 billion. The slowdown was more than accounted for by decelerations in indirect business tax accruals and in personal tax and nontax receipts and by a downturn in corporate profits tax accruals. Indirect business tax and nontax accruals increased \$3.9 billion after increasing \$7.6 billion; sales and property taxes and other tax and nontax accruals all contributed to the deceleration. Corporate profits tax accruals decreased \$1.0 billion after increasing \$1.9 billion. Personal tax and nontax receipts increased \$2.6 billion after increasing \$4.2 billion; the slowdown was attributable to personal income taxes. Contributions for social insurance increased \$0.6 billion in both quarters. Federal grants-in-aid decreased \$0.5 billion after decreasing \$7.5 billion.

Current expenditures increased \$11.5 billion after increasing \$11.7 billion. The slight deceleration was more than accounted for by consumption expenditures, particularly employee compensation and other services. 